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ABSTRACT

The publication describes the process which created the Rural Virginia Development Foundation and the potential contribution it holds for the agricultural sector of Virginia's economy and for the state's rural communities. Following an introduction, Part II provides background, operating assumptions, and principal justification for the Foundation; summarizes other states' experiences in dealing with economic development problems; describes features of industrial development corporations, certified (community) development corporations, state development authorities, and capital corporations; and reports results of surveys conducted in the state designated to gauge the extent of support for the proposed Foundation. Part III outlines the objectives and proposed structure of the Foundation. The final section addresses the interrelationships among university, state government, and private sector entities which are viewed as essential foundations of creative state economic policy. Appendices present the text of enabling legislation, members and terms of the Foundation's board of trustees, and the feasibility study joint resolution request. (NEC)

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FOREWORD

This publication describes the process which created the Rural Virginia Development Foundation and the potential contribution it holds for the agricultural sector of Virginia's economy and for rural communities of the Commonwealth. The Foundation grew out of three years of joint effort by the Community Resource Development (CRD) Program of the Virginia Cooperative Extension Service and the Virginia Department of Agriculture and Consumer Services to develop the framework for a state rural development policy. The final proposed structure was developed by a Joint Sub-Committee of the Virginia House and Senate Agricultural Committees, chaired by Senator Elmo Cross. The committee staff work was performed by CRD Extension specialists and by the staff of the Virginia Department of Agriculture and Consumer Services working with the internal staffs of the House and Senate Agriculture Committees.

Funds to support preparation and publication of this document were provided jointly by the Virginia Department of Agriculture and Consumer Services and the Community Resource Development (CRD) Program of the Virginia Cooperative Extension Service. This joint effort is designed to aid in the transfer of pertinent research technology to the communities of the Commonwealth.

CRD

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Rural Virginia Development Foundation: The Making of an Institution

by

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March, 1985

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I. INTRODUCTION

The role of state governments in developing and implementing economic policy has taken on greater importance in the U.S. under New Federalism.[1] A recent conference of the Organization for Economic Cooperation and Development (OECD) revealed that similar issues confront most of the Western democracies and, in fact, may indicate the emergence of new forms of governance with profound implications for the distribution of power among levels of governments within each nation (Jequier).[2] Clearly, both economic and political relationships will be shaped by the resulting patterns of authority that emerge from this process.

The on-going changes in social, political, and economic forces in Virginia have been closely observed over the past few years by social scientists, state government officials, and specifically the Virginia Rural Development and Capacity Building Council. An increasing concern has been expressed by many members of the public and private sectors about poor economic conditions in many rural areas of Virginia, including particularly poor conditions in farming communities. The recent flow of population to rural areas is increasing the proportion of non-farm employment in some rural areas and permanently altering the composition of rural society. Newcomers compete with permanent residents for limited public services. The attractiveness of the countryside to the elderly as a retirement haven simultaneously increases demand for health and welfare services. At the same time, dire economic conditions manifested by instability of farm and other natural resource based incomes (e.g. coal, fisheries, timber), high unemployment, excess plant capacity, and sluggish investment plague rural communities in Virginia.

The state's public response to these concerns was expressed, among other ways, through the Virginia Rural Development and Capacity Building Council. As early as 1981, the Council's membership consisted of public and private sector representatives including academic interests. The Council recognized the need for a shift in rural economic development policy in the Commonwealth. An emphasis was placed on strengthening the farm economy by strengthening its linkages to the non-farm sector. Expected benefits would accrue to rural communities in the form of increased demand for farm and forestry products, increased employment, increased incomes for farm families, and an expanded tax base for rural jurisdictions.

Based on recommendations from an extensive study conducted by this Council, a legislative subcommittee was formed in 1983 to give further study to the business needs of rural areas. This legislative subcommittee, chaired by Senator Elmo Cross (hereafter referred to as the Cross Subcommittee), conducted a thorough study of the need and possible organizational structure for a Rural Virginia Development Foundation. Legislation which led to the creation of this Foundation by the Virginia General Assembly was drafted and signed into law by Governor Robb on April 10, 1984. (A copy of the Bill is included as Appendix A). The purpose of this report is to describe the rationale, proposed structure, and potential contribution to the economic development of rural areas of Virginia of the Rural Virginia Development Foundation.

The remainder of this paper is divided into three principal parts. Part II provides the background, operating assumptions, and principal justification for the Foundation. Two brief sub-sections will be devoted to (a) a summary of other states' experiences in dealing with economic development problems, and (b) the results of surveys conducted in the state which were designed to gauge the extent

of support for the proposed Foundation. The third part describes the objectives and proposed structure of the Foundation. The final part of this report addresses the interrelationships among university, state government, and private sector entities which are viewed as essential foundations of creative state economic policy.

II. BACKGROUND AND ASSUMPTIONS

A close working relationship between research and extension faculty at Virginia Tech and state government was strengthened by Title V of the Rural Development Act of 1972. State government personnel were members of the Title V Advisory Committee from its inception in 1973 and were participants in various workshops and conferences conducted as part of this rural development program until it ended in 1981. The demise of funding for integrated research-extension work under the auspices of a state-wide advisory committee has not diminished either university-state government cooperation or the emphasis on rural development work in Virginia. Title V was an important building block in a process that has been carried forward by socio-economic changes and attempts to re-define the roles of federal, state, and local governments. The New Federalism has forced all levels of government to take a new look at the potential resources, including leadership, that can be provided by a creative partnership between the public and private sectors.

1. A Convergence of Efforts

The need to develop a state rural development policy was recognized by both university and state government officials as early as 1980. For example, a working group of research-extension faculty at Virginia Tech developed a statement in 1980 which included the following points:

1. Virginia citizens should establish a viable rural development policy for the state in order to: (a) provide guidelines for allocating federal revenue in programs designed to improve rural areas of Virginia, and (b) provide an important set of constructs to steer state and local resources and to provide incentives for private capital investment, job training programs, volunteer activities, and other community based activities related to community and economic development.

2. The state rural development policy should be "indicative" and not "prescriptive." That is, it should provide general direction for state and local policy, private business decisions, and for citizens engaged in volunteer activities.

3. A program of integrated research and educational efforts should be undertaken to provide the foundations for a viable rural development policy for Virginia. The educational program would have as a major goal to enable the citizens of Virginia to identify their priority needs in view of information about the resource potential of Virginia and the additional resources that can be brought to bear on the state's problems.

Following several years of active investigation and study by a Rural Affairs Study Commission and various legislative committees on rural affairs, the Virginia Rural Development and Capacity Building Council, in March, 1981, established a Rural Development Subcommittee to make an appraisal of the need to strengthen aspects of the economic and social development of Virginia farmers and rural areas

throughout Virginia.[3] The Rural Development Subcommittee was composed of representatives from the Virginia Department of Agriculture and Consumer Services, Virginia Polytechnic Institute and State University, Virginia State University, Virginia Cooperative Extension Service, other state agencies, federal agencies, and the private sector.

The subcommittee met three times during the spring and summer of 1981 and determined that a clearly defined policy for rural development with appropriate strategies for action was definitely needed in Virginia. The subcommittee placed emphasis on the observation that farm problems go beyond the farm gate and that rural community development must be based on a broad economic approach. The growing dependence of farm families on off-farm income sources was recognized.[4]

On October 7, 1981, in its report to the Governor's Rural Development and Capacity Building Council, the Rural Development Subcommittee recommended that a public/private partnership be created as a mechanism to concentrate on economic development of rural areas. In response to the Rural Development Subcommittee's recommendation, a Task Force was established by the Council to study the feasibility of such a mechanism.

2. Policy Issues

The Task Force delineated a set of general concerns that influenced the form of the Rural Virginia Development Foundation. The general concerns included the following:

1. The free enterprise system depends on state and local government, to act as "cooperators" and as "providers" of many essential services and resources.

2. The diverse activities of state and local government and multi-county planning district commissions most effectively serve the needs of the private business sector and the public for essential services when sufficiently coordinated.

3. The level of economic development varies significantly among communities. Some are experiencing rapid population growth and increased demand for public services, while others are stagnating. Pockets of poverty, and underutilized human and natural resources still persist in many areas of the Commonwealth.

4. Local governments will face increasing difficulties in financing and delivering adequate public services to their citizens. Even though public infrastructures are deteriorating, less future support can be expected from the Federal government.

5. Public investment is a vital prerequisite for a balanced private investment program.

6. The needs of the Commonwealth will be effectively addressed only if state policy is sufficiently flexible enough to address this range of conditions in a positive, responsive manner.

7. The private sector is capable of providing a broader range of services

including some which have traditionally been supplied by governments.

8. A limitation of many state and federal programs designed to assist rural areas is their limited scope and vision. Many programs deal with only one aspect of a very complex problem, have short-term objectives, and result in a piece-meal approach to social and economic development. On the other hand, no single policy or program can simultaneously solve all problems associated with rural development.

Based on these issues, several working hypotheses were advanced.

1. A rural development institution must have a purpose and direction that draws on the strengths of, but does not duplicate the efforts of any other state agency. Instead, it should be designed to integrate the various sub-components of existing programs, coordinating their efforts in order to have maximum impact on some of the most critical problems in rural and small-town Virginia.

2. An economic development program for the Commonwealth should be based on a constancy of purpose with a sufficiently long-term perspective to address the hard-core problems that have evolved over the past 50 years. A new public/private partnership must be forged building on existing state agencies, multi-county planning districts, and local units of government.

3. Multi-county planning districts should promote innovative programs at the local level. Public facility planning must be strengthened in order to provide a minimum level of public services to all citizens and to develop an infrastructure that will consolidate advancements in economic development and stimulate new ventures.

4. Program specific funding and technical assistance will be needed to address rural problems associated with water/wastewater, health, housing, education, transportation, energy, farming, forestry, and economic development. Yet, no program should be implemented that is not cognizant of the interrelationships among each of these subcomponents of an effective rural development strategy.

3. Problem Identification

The need for a creative, public-private sector partnership to promote balanced economic growth and provide access to a range of public services grew out of reports and studies such as the National Science Foundation supported study by Farmer et. al., Capacity Building Needs of Rural Areas in Virginia, and a series of needs assessments made in counties targeted by the Title V Rural Development Project of Virginia Tech.

From this range of studies it became clear that agricultural communities depend heavily on non-farm employment. Agricultural suppliers and processing plants are business enterprises that play important roles in strengthening the farm economy and in providing a more diversified local economic base. Therefore, efforts to develop the farm-non-farm linkages were recognized as a vital component of a balanced growth strategy in the state.

Recent research by David Birch at MIT, Shaffer and Pulver at Wisconsin, and Deaton and Johnson at Virginia Tech underscored the importance of small businesses in the economic development process. For example, four-fifths of all the new jobs in America between 1974-80 were created by establishments with less than 100 employees. Furthermore, over a span of 20 years, small businesses have developed 24 times as many innovations per research dollar as have large firms (Shaffer). This impressive record has been achieved despite the limitations arising from limited venture capital and technical assistance available to small firms. Yet, Virginia is behind other southern states in its reliance on small businesses as job producers. In Virginia, 23 percent of employees are employed by establishments with less than 20 employees and 46 percent by those with less than 100 employees. (Table 1)

Table 1: Percent of Persons in the Southern* Work Force Who are Self-Employed and Employed in Small Businesses

	Self-Employed 1980	Size of Establishment 1981	
		Less than 20	Less than 100
Alabama	10.6	38.4	75.7
Arkansas	15.7	31.0	41.8
Florida	8.3	27.7	56.9
Georgia	8.8	23.4	51.8
Kentucky	15.4	38.9	57.1
Louisiana	8.3	24.6	55.4
Mississippi	13.2	31.2	62.4
North Carolina	10.0	22.2	47.5
Oklahoma	14.0	27.8	56.6
South Carolina	8.9	25.1	49.2
Tennessee	12.0	22.5	46.5
Virginia	7.9 (lowest)	23.0 (3rd lowest)	46.0 (2nd lowest)
SGPB TOTAL		25.4	52.7

*Data for Puerto Rico was unavailable.

SOURCE: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Department of Labor.
In: Southern Growth Policies Board, Foresight, Number 1 (May, 1983).

The potential importance of small businesses to the economy of Virginia has struck a responsive chord among legislators in Virginia, many of whom are closely associated with the struggles of small businesses. The potential of small businesses could be strengthened further by promoting small-business development among firms that are directly linked to agriculture, forestry, and the natural resource base of the Commonwealth of Virginia.

New and growing industries require a variety of ingredients in order to succeed. They require a good idea, sufficient demand for their product or service, a

willingness to invest and bear risk, management and marketing skills, productive labor, the necessary infrastructure (roads, utilities, schools, etc.), and an adequate capital base. A business can only be as successful as the most limiting factor will allow. The extraordinary success of venture capital firms, with their coordinated package of financing, management assistance, and marketing expertise suggests that capital and entreprenuership may be the most limited factors.[5]

Venture capital allows a firm to fully capitalize itself by expanding the most critical type of capital -- equity or ownership capital. As Figure 1 indicates, long-term credit builds upon a strong equity capital base, while short-term credit builds upon the long-term credit. Thus a modest injection of equity capital can leverage a considerable amount of credit.

Expanding the base of capital ownership through equity financing using such financial mechanisms as community development corporations and small business investment schemes were important issues considered by the Cross Subcommittee of the Virginia House and Senate appointed in the spring of 1983 and chaired by Senator Elmo Cross to study this issue further. A body of research was identified which provided examples of relative success under varying state and federal structures and local institutional arrangements. (Abt. Associates Inc.; Deaton; Sabre Foundation). In addition, the following principles provided basic operating assumptions for the work of the Joint Subcommittee.

- o Basic education, manpower training, and career and vocational education are critical building blocks of economic development;
- o Access to capital is a vital requisite of a thriving, free-enterprise economy;
- o Private enterprise and initiative should be aided rather than supplanted as a basis for development;
- o Economic development must be supported locally and be in harmony with local ideas and values;
- o Development must be fostered from within an area, based on local talents and resources;
- o Information and ideas must flow in both directions between local areas and government institutions;
- o A bottoms-up approach to economic development will allow the initiative for new types of businesses to occur at the local level.

The deliberations of the Joint Subcommittee of the Virginia legislature culminated in a recommendation for the establishment of the Rural Virginia Development Foundation. The Cross Subcommittee suggested that two types of research be undertaken by the staff of the subcommittee.[6] First, a survey of private and public leaders at the local level in Virginia was suggested as a means of determining the specific needs and wishes of rural areas. Second, it seemed essential to determine the approaches being undertaken in other states and their experiences with similar programs.

CAPITAL NEEDS
FINANCIAL PYRAMID

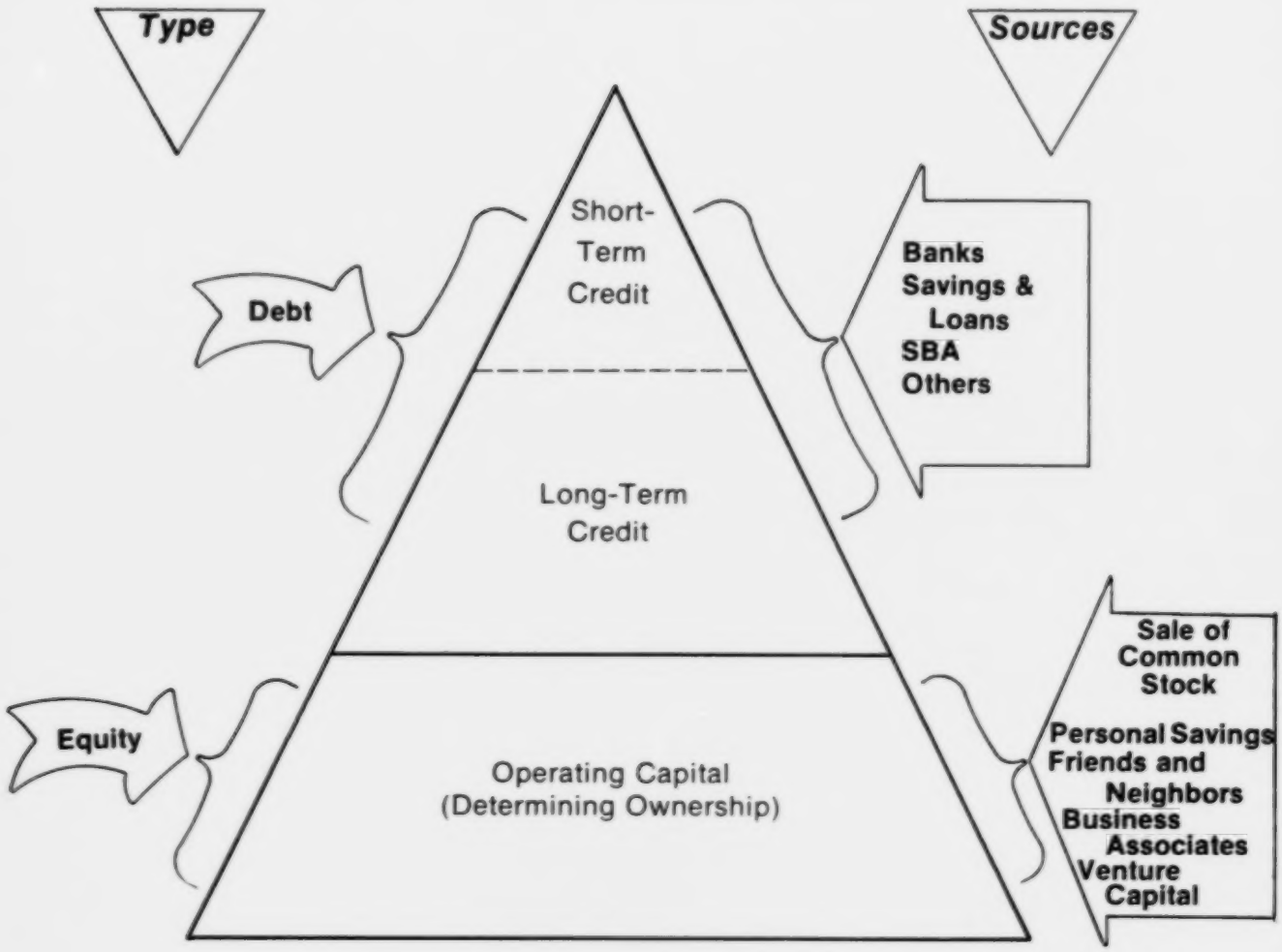

Figure 1: The Capital Needs Financial Pyramid

The next two sub-sections provide: (a) a brief synopsis of other states' development finance programs, and (b) a summary of important findings from the survey of local leadership.

4. State Industrial Development Finance Programs: A Survey

The purpose of this section is to highlight the most important findings from research on industrial development finance programs in other states. The subcommittee staff launched a survey of state activities across the U.S. in the area of development finance programs. The approaches being taken in other states proved useful during the development of Virginia's program.

State programs designed to encourage industrial development by increasing the availability of financing are far from being new, but neither are they a static phenomenon. During most periods over the last three or four decades, there have been "finance gaps" -- differences between the financial services needed by the private sector and the services actually available. These "gaps" have continuously evolved over time as the private and public (particularly Federal) financial markets have changed.

During the 1950's and early 1960's, growth was centered in the traditional urban areas, mostly in the North Central and North East Regions. In the 1970's and 1980's, however, growth has been greatest in the more rural areas of the South and West. At the same time, rapid development of resources, such as energy, and the simultaneous decline in economies of other sectors, such as agriculture, have left different regions and states in the nation facing very different conditions. Overall, the programs in various states through the last three or four decades provide a wealth of experience upon which we may draw.

We first present a summary of the finding of the Office of Technology Assessment in their report entitled Technology, Innovations, and Regional Economic Development: Background Paper, Census of State Government Initiatives for High-Technology Industrial Development. Table 2 provides an overview of state programs. The following summary points reflect our views of these findings:

- Virginia is perceived to lack the balance of financial alternatives that many states are using to promote economic development.

- Relatively few states have developed public-private partnerships to create Venture Capital. Public efforts are most noteworthy in the states of Indiana, Louisiana, Maine, Maryland, Massachusetts, Michigan, Montana, and New York.

- A number of states are moving rapidly in this direction, are proposing enabling legislation, or have interesting alternative institutions: Florida, Illinois, New Jersey, New Mexico, North Dakota, Ohio, Pennsylvania, Vermont, Wisconsin, and Wyoming.

- No state has proposed drawing local government money into a quasi-public venture capital institution as Virginia is proposing.

Table 2: Recent State Experiences in Promoting High Technology Industry Development

State	Nature of Capital Assistance	Target Sectors or Areas	University Relationships	General Comments
Alabama	Grants for industrial site development. 100% IRB financing	High Tech		Uses tax incentives: - abatement of local property taxes - freezes tax on improved property - Exemption from state sales tax
Alaska*	Venture capital for small enterprises	To diversify and stablize state economy through value - added industry.		Thus far most assisted businesses have been related to alternative energy sources.
Arizona		Has strong high-tech base.	$1.4 million Center of Center of Excellence at Arizona State-Temp. Close Community College - Business relationship.	No tax breaks or "holidays"
Arkansas		Home grown business	University-Industry Experiment Center for Small Manufacturing; Industrial Extension Center, University of Arkansas.	Heavy technical assistance emphasis
California	Loans to entrepreneurs and investors	High Tech Innovations	Extensive	Extensive private sector venture capital.
Colorado			Colorado Electronics Institute has $4.0 M annually to link industry with universities.	Little intervention from state government.
Connecticut	Provides financial investment for new products and receives royalties = $3.3 M in 1982.	#1 in nation in high-tech jobs as percent of total.	Strong education emphasis at all levels.	Easy access to private Venture capital. Cambridge Research and Development Group mission (est. 1965) is to identify and exploit patentable new products.
Delaware		Enterprise zones created.		Little state effort except tax incentives.
Florida*	State is helping start a private venture capital association.		Strong and entrepreneurially oriented.	Constitutionally prohibited from making loans or providing capital to private firms.
Georgia			Advanced Tech. Dev. Ctr. (State and Ga. Tech)	Assists in finding private Venture capital.

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Table 2 (continued)

State	Nature of Capital Assistance	Target Sectors or Areas	University Relationships	General Comments
Hawaii*	Seed loans for new products ($100,000) and debt financing for new industries at 7.5 percent ($1 M).	Biotechnology and microelectronics		Gov. has proposed that state finance high-tech industrial parks. Venture Capital institution is being considered.
Illinois*	Growth Investment Fund is being established to finance new product development.	High-Tech and Existing Strength Biomedical	Strong - also, retraining and vocational skills emphasis.	Growth Fund will finance small technologically innovative enterprises in early developmental stages.
Indiana*	$10 million private Venture capital fund established with 20 percent state income tax credit.	Has Corp. for Innov. Dev. as non-profit group with 24 member board from government, business and education.		Programs are newly emerging.
Iowa	Encourages Venture capital.			High-Tech research tax credit; Tech. transfer mechanism.
Kansas			Wichata State has an innovation and entrepreneurship center. University of Kansas is considering a science and research park.	
Kentucky*	Private non-profit Venture Capital in Kentucky Highlands ($1.3 M)	Enterprise zones; Appalachian Region; High Tech is new emphasis.	Good vocational training and Univ. support.	Kentucky Dev. Fin. Agency has fixed asset financing under direct loans (Bond issues).
Louisiana*	Tax credits used to induce Venture capital and loans available through State.			Recent thrust in diversified economic dev.
Maine*	Loan guarantee and State chartered Corp. (MCC) to provide equity capital to new ventures.		New Enterprise Inst. related to Univ. of Maine.	Tax credits were authorized for investors for initial $1 M capital MCC invests $150,000 for $500,000 plus - sized ventures.
Maryland*	Has eight state financing programs including venture capital.		University of Maryland plays leading role.	Seems to be primarily loans to socially and economically disadvantaged.
Massachusetts*	Has state venture capital fund for ventures overlooked by extensive private funds ($1.6 M annually).	New or small High-Tech companies.	Strong and extensive.	

Table 2 (continued)

State	Nature of Capital Assistance	Target Sectors or Areas	University Relationships	General Comments
Michigan*	High-Tech Equity Loans State funding of $375 million annually through Bond Issue. May combine with pension fund and institutional investors.	Diversification	Developing rapidly	New thrust to offset recession.
Missouri	Low interest loans for capital improvements.			Strong tax-relief emphasis. Credits of $100/job. Taxes rebated to local community to retire IRB's.
Montana*	Capital Companies created for equity finance			1983: New Initiative; Credits for jobs created.
New Hampshire		High Tech in health care and social services.		Has benefitted from growth of Massachusetts.
New Jersey*	Has proposed a public - private venture capital corp.	High-Tech entrepreneurs.		
New Mexico*	Considering state venture capital corp.			New thrust is emerging.
New York*	Extensive debt financing. Venture capital through Bond Issues.			
North Carolina		High-Tech - most successful in attracting branch plants and relocating.	Strong	Recent bill to create a state venture capital fund was defeated.
North Dakota*	Has only state-owned and operated bank in the Nation. Has a special "New Business Program".	Technology - based industries.		Tax incentives
Ohio*	Econ. Dev. Fin. Program for long-term low-interest loans. Also, a development grant program.	Growth of High-Tech firms. Enterprise zones.	Being promoted	Capital derived from 15% tax on liquor profits $10 M in operating funds requested.
Oklahoma			Oklahoma State University center promotes worker involvement. Strong Vo-Tech training.	Favorable tax climate promoted.
Oregon		High-Tech		Seeking growth as New Thrust.

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Table 2 (continued)

State	Nature of Capital Assistance	Target Sectors or Areas	University Relationships	General Comments
Pennsylvania*	Seed money for research and Development MILRITE Council has board of 15 business, labor, government has created Venture capital limited partnership to be capitalized with public and private pension funds.	27 industry groups targeted for assistance.	Being promoted strongly.	New Tech. Thrust. Gov. has requested $10 million to be matched by private sector and higher education. Debt financing is available, Too Conservate for new, risky businesses.
South Carolina		7 industries targeted.	High-Tech skills training in 16 community colleges - Research Parks around three major universities.	
South Dakota				Favorable Bus. Climate
Tennessee	Seeking to find Venture capital for new and expanding industries.	High-Tech	Strong and Being Promoted.	
Texas	Private venture capital is prominent in some locations.		Strong	Strong public-private cooperation. Mostly private sector financing.
Utah		Biomedical, bioengineering, computers, medical.	Strong	Educated labor force.
Vermont*	A number of loan programs. Proposed public-private venture capital fund based on pension funds.			
Virginia*	No targeted loans or special financing for new and expanding industry. Venture capital hard to find in State. Banks conservative.		Strong	Good business climate and excellent higher education system.
West Virginia	Long-term low-interest loans.	Diversification-Robotics, electronics, chemicals, and energy.	University of West Virginia Entrepreneurial Studies and Development (1981)	
Wisconsin*	Has created fund for CDC investments.	High-Tech	Traditionally strong.	Efforts distinguished by private sector and public-private coalitions. R & D tax credits.
Wyoming*	Provides Venture capital from State funding - (WIDC).			Lowest tax structure in nation.

- Clearly, the strength of most programs is based on innovative private sector relationships with state governments, universities, and community colleges, in order to achieve:

    1. New product development and technological innovation.

    2. Technical assistance, financial assistance, entrepreneural development and support, and manpower training.

- The Virginia emphasis on utilizing the vitality and the proven success of venture capital to achieve balanced economic growth is unique. Bringing high-tech and/or state-of-the-art technology into rural Virginia is the challenge.

- It seems important to emphasize that the leading growth industries are not all "high-tech." Table 3 shows the leading growth industries as reported in the 1983 Industrial Outlook of the Department of Commerce:

Table 3: Expanding Industries by Standard Industrial Classification

Rank	Industry	Percent Growth in Shipments
1.	Electronic Computing Equipment (SIC 38)	17.8%
2.	Wood Pallets and Skids (SIC 24)	14.9%
3.	Semiconductors (SIC 36)	14.6%
4.	Electronic Connectors (SIC 36)	13.2%
5.	Electronic Components (SIC 36)	12.7%
6.	Games, Toys and Children's Vehicles (SIC 39)	9.4%
7.	Electronic Welding Apparatus (SIC 36)	9.0%
8.	Surgical and Medical Instruments (SIC 38)	8.5%
9.	Radio and TV Communications Equipment (SIC 36)	8.2%
10.	Guided Missiles and Space Equipment (SIC 36-38)	8.0%

The following discussion classifies selected programs of other states according to several key features of their programs. It is not a coincidence that this scheme also divides them on a roughly chronological scale. Figure 2 outlines this classification scheme.

Industrial Development Corporations

Industrial (or Business or State) Development Corporations (IDC) began to appear in the 1950's and 1960's. They were originally designed to meet a need for long term, fixed rate credit for the establishment or expansion of businesses. In general these corporations do not offer loans at lower than average rates. In fact,

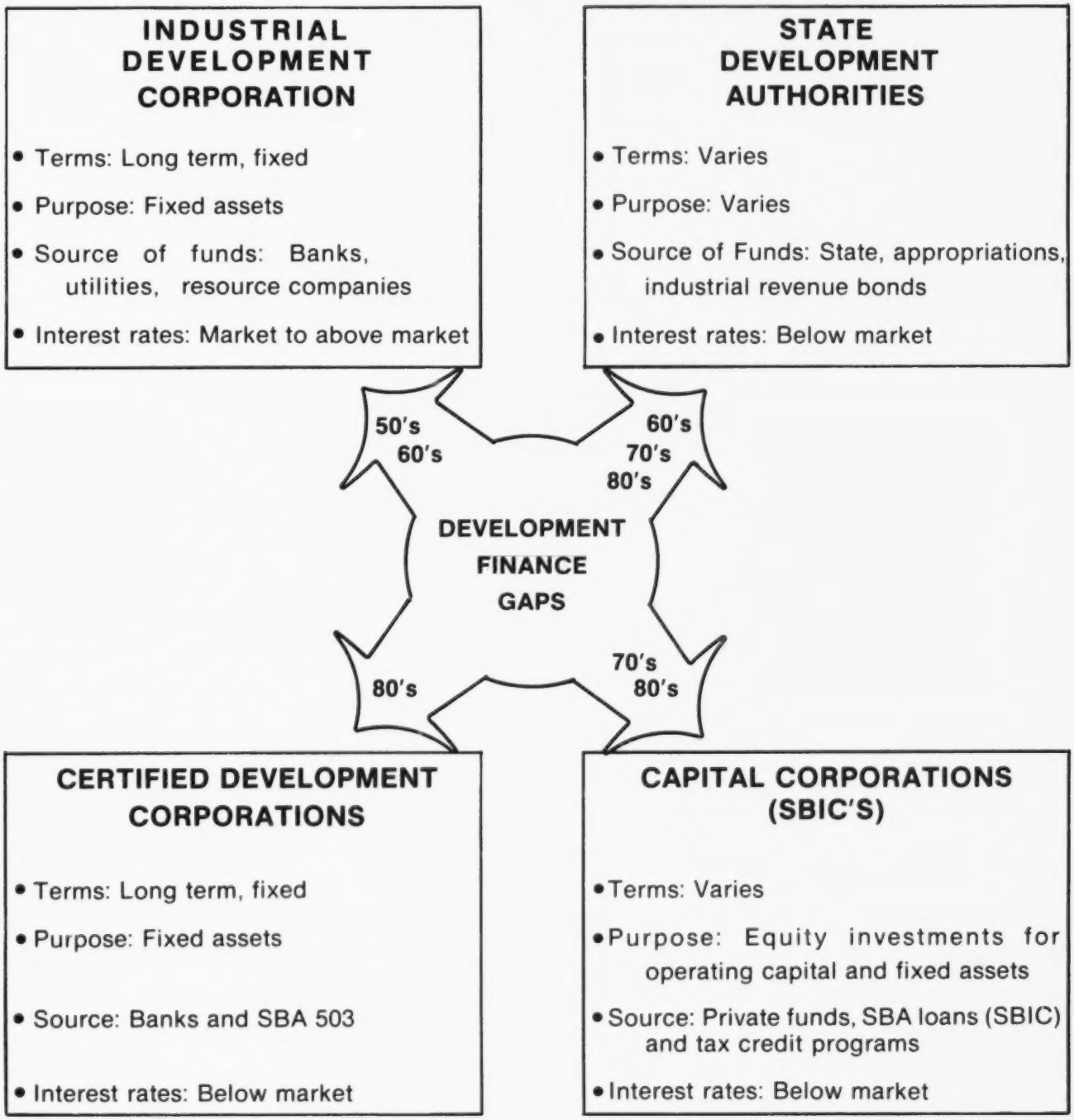

INDUSTRIAL DEVELOPMENT CORPORATION
• Terms: Long term, fixed
• Purpose: Fixed assets
• Source of funds: Banks, utilities, resource companies
• Interest rates: Market to above market
STATE DEVELOPMENT AUTHORITIES
• Terms: Varies
• Purpose: Varies
• Source of Funds: State, appropriations, industrial revenue bonds
• Interest rates: Below market
50's 60's
60's 70's 80's
DEVELOPMENT FINANCE GAPS
80's
70's 80's
CERTIFIED DEVELOPMENT CORPORATIONS
• Terms: Long term, fixed
• Purpose: Fixed assets
• Source: Banks and SBA 503
• Interest rates: Below market
CAPITAL CORPORATIONS (SBIC'S)
• Terms: Varies
• Purpose: Equity investments for operating capital and fixed assets
• Source: Private funds, SBA loans (SBIC) and tax credit programs
• Interest rates: Below market

Figure 2: Four models of development finance programs.

interest rates are typically higher than those charged by financial institutions for short-term, well secured loans.

The typical IDC is initiated by selling stock to banks, and to any other interested companies and individuals. Typically, stocks are held by transportation companies, utilities, mining companies, and forestry companies. Most banks hold the additional status of member. As a member, a bank is required to pledge loans to the IDC at specified interest rates. These funds are then used, as needed, to lend to qualifying borrowers. In return for these lines of credit, member institutions have a greater share of the control in the IDC.

Many of the IDC's have (or have had) a provision which requires that they make a loan only if the borrower has been refused by a commercial bank. In practice most borrowers are referred to the IDC by a commercial bank that prefers not to make the loan.

The degree of flexibility in making loans varies dramatically from one IDC to another. At the one extreme are those that can lend money only for fixed investments. Many require substantial security. At the other extreme are those which may take an equity interest in certain businesses. While this is quite rare, it is more common for IDC's to own land and buildings for their clients and to take warrants with respect to loans. The IDC provides these fixed assets to businesses on a lease-purchase arrangement over some reasonable time period, usually 10-20 years.

IDC's have had reasonable success in a profitability sense. The fixed rate nature of their loans have made some of their older loans unprofitable but overall, most IDC's have made money. In terms of their impact on development, the more inflexible corporations have declined in importance in recent years as the "finance gap" of the 1950's has given way to newer "gaps."

The "finance gap" which the early IDC's filled has largely been eliminated by commercial banks. Banks have generally started to offer longer term loans and, while the interest rates are not fixed, this is often considered a merit during periods of very high interest rates. The more flexible IDC's have modified their portfolios while the less flexible have either disappeared (North Carolina Industrial Development Corporation) or watched their portfolios dwindle (Virginia Industrial Development Authority). Table 4 lists the states with IDC's and their names.

IDC's, while largely dependent on private funds, usually fall within the guidelines of the U.S. SBA's section "501" program for state business development corporations which match private funds with federal funds (when available) on roughly a 4:1 basis (4 federal for 1 private). These funds may be used for long term (5 year) loans or equity investments.

Certified (Community) Development Corporations

The Small Business Administration Section 503 Program provides for the establishment of Certified (or Community) Development Corporations (CDC). While a CDC does not, in itself, involve state development policy since any community may establish such an institution, some states have developed policy to take advantage of the program.

Table 4: State Industrial (Business) Development Corporations

State	Name
Arkansas	First Arkansas Development Finance Corporation
California	First California Development Finance Corporation Government Funding-Calbidco Provident Calbidco Statewide California Business and Industrial Development Corporation
Florida	Florida Industrial Development Corporation
Georgia	Business Development Corporation of Georgia
Iowa	Iowa Business Development Credit Corporation
Kansas	Kansas Development Credit Corporation
Kentucky	Business Development Corporation of Kentucky
Maryland	Development Credit Corporation of Maryland
Massachusetts	Massachusetts Business Development Corporation
Missouri	First Missouri Development Finance Corporation
Montana	Development Corporation of Montana
Nebraska	Business Development Corporation of Nebraska
Nevada	Nevada Financial Development Corporation
New Hampshire	New Hampshire Business Development Corporation
New York	New York Business Development Corporation
North Dakota	North Dakota State Development Credit Corporation
Oklahoma	Oklahoma Business Development Corporation
Pennsylvania	Pennsylvania Development Credit Corporation Southeastern Pennsylvania Development Fund Western Pennsylvania Development Credit Corporation
Rhode Island	Business Development Company of Rhode Island
South Carolina	Business Development Corporation of South Carolina
Virginia	Virginia Industrial Development Corporation
Washington	Business Development Corporation of Eastern Washington
Wyoming	Wyoming Industrial Development Corporation

A CDC is an intermediary between businesses and financial institutions. The CDC does not, itself, make any investments. The typical "503" investment would include 10 percent equity investment by the applicant, 50 percent bank loan, and 40 percent CDC debenture guaranteed by the SBA. The debenture is typically at an interest rate below prime. The average interest rate for the 90 percent which is financed is, therefore, somewhat lower than the market rate. These loans may be used only for fixed assets. The debenture portion of the loan is long term (up to 25 years) and limited to $500,000. The non-CDC funds must not be public funds.

Two types of state programs are being used to take advantage of the program (See Table 5).

Table 5: Statewide Certified Development Corporations

State	Name
Iowa	Iowa Business Growth Company
Massachusetts	Massachusetts Certified Development Corporation
Wisconsin	Community Economic Development Program

First, statewide CDC's, such as the Massachusetts Certified Development Corporation, have been established to ensure that all areas have access to the program. Second, some states, such as Wisconsin, have established agencies to help community level CDC's take advantage of the program. In particular, "umbrella programs" have been employed to centralize the issuance of debentures.

A common complaint about this program is the heavy paper work demands and the difficulties involved in getting permission to issue debentures. The centralization of CDC functions is an attempt to reduce these costs.

State Development Authorities

A large number of states address industrial development finance directly by establishing an authority, or public corporation (See Table 6). These authorities are usually funded through an initial and/or periodic appropriation. Those which provide loans have a revolving fund in which repayment of principal by one borrower, releases funds which are lent to new borrowers.

Many of these authorities issue industrial revenue (development) bonds. These bonds are tax-exempt and are frequently insured by the authority. This usually results in very favorable interest rates to the borrower. The IRB's can only be used for fixed investments.

Table 6: State Development Authorities

State	Name
Connecticut	Connecticut Development Authority
Iowa	Iowa Product Development Corporation
Louisiana	Louisiana Minority Business Development Authority
Maryland	Maryland Industrial Development Financing Authority Maryland Small Business Development Financing Authority
Massachusetts	Massachusetts Certified Development Corporation
Montana	Montana Economic Development Board
Nebraska	Nebraska Development Financial Fund
New Jersey	New Jersey Economic Development Authority
Oregon	Oregon Business Development Fund
Pennsylvania	Pennsylvania Industrial Development Authority Pennsylvania Minority Business Development Authority

Some states have "umbrella programs" in which IRB issues are made for several smaller projects. These issues are more efficient than smaller issues, resulting in even lower interest rates. With a few major exceptions, these authorities do not make equity investments. Michigan, Massachusetts, and Iowa are exceptions. Some authorities have broadened their capitalization base by drawing on pension plans (Michigan) and resource taxation or Heritage funds (Montana).

Capital Corporations -- SBIC's

Small Business Investment Corporations (SBIC's) and Minority Enterprise Small Business Investment Corporations (MESBIC's) were conceived in the Small Business Investment Act of 1958 as a private market tool of the federal government. Public money was lent to investment groups to be used for equity investments in small businesses. The public money could not be used to leverage additional SBA funds. Many private venture capitalists take advantage of this program.

Two public uses of the SBIC concept have evolved (See Table 7).

Table 7: Capital Companies (Small Business Investment Companies)

State	Name
Indiana	Corporation for Innovation Development
Kentucky	Kentucky Highlands Investment Corporation
Louisiana	Louisiana Capital Companies Tax Credit Program Louisiana Small Business Equity Corporation
Maine	Maine Capital Corporation
Montana	Montana Capital Companies
Wisconsin	Community Economic Development Finance Authority

The first is the creation of non-profit, private institutions which use for-profit SBIC's to help achieve their social objectives. The Kentucky Highlands Investment Corporation (formerly known as Job Start) is such an institution. These corporations make venture capital investments with combinations of their own funds and SBA loans. Their basic capitalization consists of endowments, common stock, and retained earnings.

The second public use of this program is the establishment of for-profit venture capital corporations, or subsidiaries of other publicly established institutions. The Capital Corporation of Wyoming Incorporated, a subsidiary of the Wyoming Industrial Development Corporation, is such an institution. The "economic development SBIC's" allow the parent corporations to tap additional sources of funds while broadening their range of financial offerings.

A common, although not universal, characteristic of capital programs is their dependence on incentives created by some sort of state tax credit for investors. Programs of this nature have been developed in Indiana, Louisiana, Maine, and Montana. The tax credits on state income taxes range from 25 percent to 75 percent on the current dollars invested by individuals.

Summary of Findings and Tentative Conclusions

Based on this research, we concluded that Virginia needed a more direct set of policy tools to target the most distressed areas of the state and to promote rural-urban balance. Virginia was not among the 21 states which in 1983 operated direct loan programs to business. Among southern states, Florida, Kentucky, Louisiana, Maryland, Oklahoma, Texas, and West Virginia had direct loan capability amounting to over $20 million (Congressional Budget Office). Neither does Virginia offer direct grants to small businesses, tools which are being used by four states including Alabama.

More specifically, the renowned success of private venture capital firms, particularly in urban areas adjacent to the venture capitalists' headquarters, seemed to offer the greatest promise for a successful approach to both stimulating and targeting further private sector business development in non-urban areas (See Figure 3). The rate of return on venture capital investments is extremely high. The Economist reported that the recent rate of return in the U.S. was in the range of 50%. Moreover, business firms that have received venture capital support have a much lower failure rate than the national average, roughly 23% compared to a U.S. average in the 70% range.

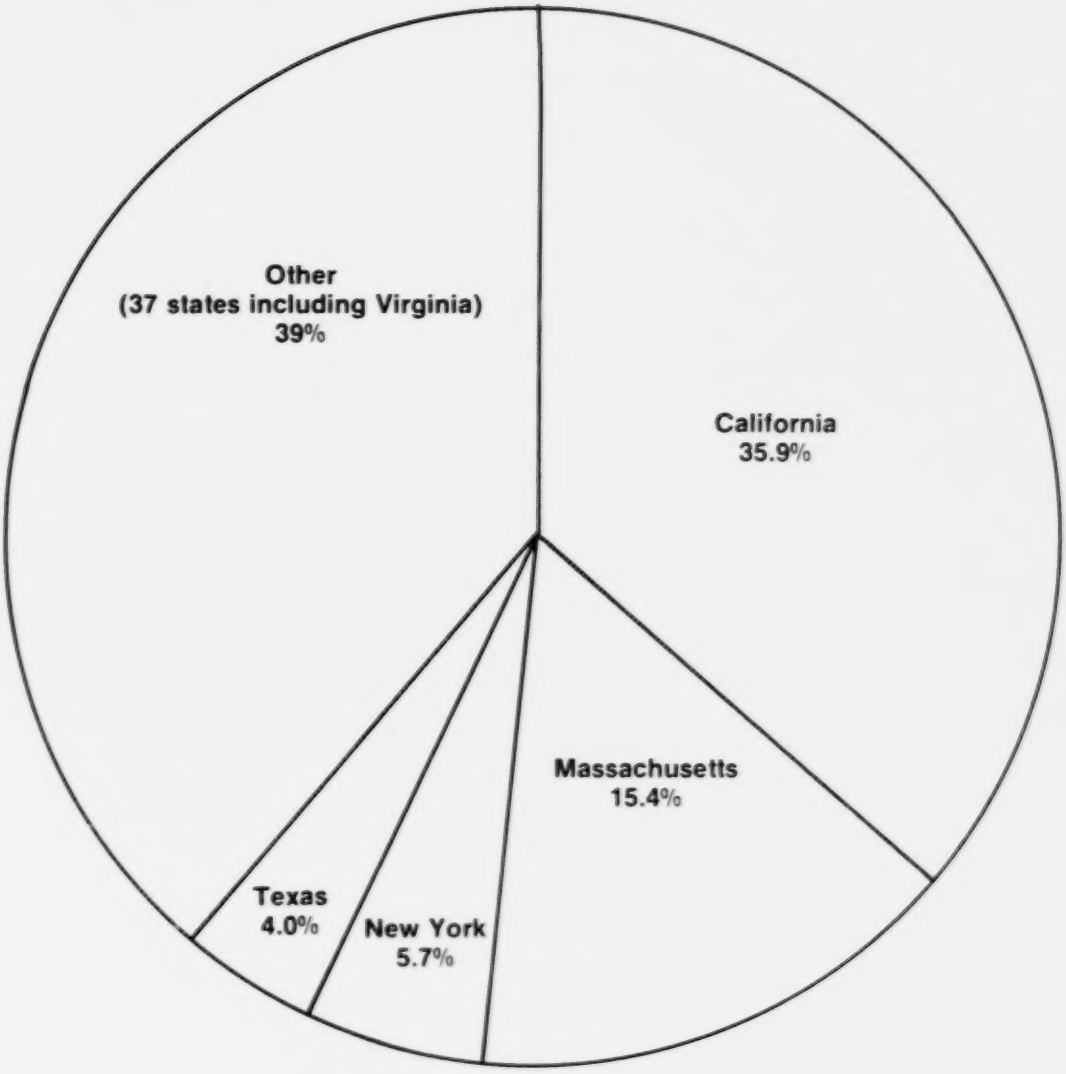
The logic of transplanting the largely urban venture capital concept into rural areas is aptly summarized by officials of the Wyoming Industrial Development Corporation.

> A highly successful venture capital firm in Denver receives two hundred business plans per year. In Wyoming, few entrepreneurs have the ability to draft a business plan. Of these two hundred available prospects, this particular firm funded six deals. Half of the business plans are returned by the secretary and the other half are reviewed by a professional staff which thoroughly screens business applications which fulfill the venture capital firm's thirst for high reward prospects. Of the projects not funded, perhaps 5% to 10% represent firms that would provide significant economic development activity within smaller Wyoming communities but do not possess enormous growth or market potentials. These entrepreneurs will move to whatever location is dictated by the venture capitalists. (Wyoming Industrial Development Corporation, 1983, p. 2).

The 5 percent to 10 percent of business plans referred to above represents the development finance gap of the 1980's.

According to the Congressional Budget Office (CBO), "the idea of creating public venture-capital corporations has received a great deal of attention by state legislatures" (CBO, p. 20). Six states have attempted to initiate such programs. Four states (Alaska, Indiana, Maine, and Massachusetts) authorized 46 investments in fiscal year 1983-84 for a total volume of $9.7 million (CBO, p. 20). Both Alaska and Maine have attempted to target some of their investments into natural resource related businesses.

A notable characteristic of many state programs is the coordination among manpower training programs, technological developments, mechanisms for technology transfer, and capital finance programs. We felt that Virginia could learn some



Source: Venture Economics - Information, Research and Consulting Divison of Capital Publishing Corporation, the publishers of the *Venture Capital Journal*.

Figure 3. Number of Investments by State (%) - 1981

lessons from these experiences, particularly if such efforts could be targeted to achieve state policy goals. Appendix A provides a brief sketch of the range of state programs that are being undertaken.

5. Results of Survey of Local Public and Private Sector Leaders

The Cross Subcommittee studying the Rural Virginia Development Foundation wanted to obtain information and ideas from the people in Virginia. In order to obtain these inputs, a survey instrument and a brochure describing the proposed purpose and objectives of the Foundation were mailed to 466 persons throughout Virginia during August 1983. Forty-three percent of the persons sampled responded. This response rate is significantly greater than usually experienced with mail surveys. Of the respondents, 57 percent were in private employment and 43 percent were in the public sector.

Respondents to the 1983 survey overwhelmingly indicated that there was a need for new businesses/industries in their area. When responses were analyzed on a regional basis, the percentage of respondents indicating a positive need for new business ranged from 94 percent for Southside respondents to 100 percent for respondents from the Northern and Eastern regions. The data were analyzed further to determine the types of businesses that are preferred in the different regions. While response rates varied among regions, the top two businesses were the production of new products not currently manufactured in the area, and the further processing and marketing of agricultural products.

A common statistical analysis tool (analysis of variance) was utilized to determine whether there were any statistically significant differences among the regions with regard to preferred businesses. While there were some differences, statistically they were not great enough to declare that different regions have different preferences. Also, there were no significant differences between the public and private sectors regarding preferred businesses. Table 8 provides a description of the preferred businesses by region.

Further indications of the need for new business/industry development in rural Virginia were obtained in the survey through queries regarding recent delays in establishing new businesses or outright cancellations of planned new locations. A majority of respondents indicated that their regions had experienced problems with business delays or cancellations during the past five years. Of the regions surveyed, Southside Virginia had the best average. Fifty percent of the Southside respondents did not report business delays/cancellations and fifty percent reported business disruptions. The Southwest region had 79 percent reporting business start disruptions and only 21 percent reported no problems. Table 9 provides an overview of the reasons behind business delays and cancellations. Most business disruptions were caused by a lack of capital financing and inadequate public facilities and services. A relatively large number of respondents attributed cancellations to the fact that local officials or public groups did not want a particular type of business. This latter reason received a relatively high response rate in the Northern, Central, and Eastern parts of Virginia. Inadequate private facilities and services appear to be important reasons for business cancellations in Southwest and Southside Virginia.

Table 8: Preferred New Businesses, by Region, Virginia*

Preferred Businesses	North	Central	East	Southwest	Southside
			-Percent-		
The further processing and marketing of agricultural products	24	27	22	26	30
The further processing and marketing of forest products	8	19	17	23	22
The further processing and marketing of seafood products	3	3	17	0	0
The production of new products not currently produced or manufactured in your area	41	25	28	28	30
New services not currently available in your area	24	26	16	23	18

*This table allows the reader to view the percentage response rate of preferred businesses within a given region and how a given type of business is viewed among regions, e.g., 41% of survey respondents in the Northern part of Virginia preferred "the production of new products not currently produced or manufactured in that area" while only 3% of survey respondents in the North preferred businesses that would "further process and market seafood products"; also, new businesses that would "further process and market forest products" received a relative high percentage vote in the Southwest compared to the other four regions.

Table 9: Reasons for Delays or Cancellations of Business/Industry Starts, 1979-1983, Va.

Preferred Businesses		North	Central	East	Southwest	Southside
				-Percent-		
Has the establishment or development of any business/industry starts been delayed or cancelled in your area over the last five years?	Yes	60	71	53	79	50
	No	40	29	47	21	50
Reasons for delays or cancellations*:						
-Local public or private persons did not want additional economic growth	Delayed	8	0	0	5	0
	Cancelled	0	7	6	6	9
-Local public or private persons did not want a particular type of business/industry	Delayed	0	5	0	11	6
	Cancelled	31	20	18	10	4
-Local public or private persons disapproved of the use of agri land for the new business/ industry	Delayed	0	5	0	5	0
	Cancelled	8	11	0	8	0
-Local tax rates were not comparative with other areas	Delayed	0	0	0	3	0
	Cancelled	0	2	0	0	0
-Lack of support or coordination by state government	Delayed	0	21	0	5	6
	Cancelled	0	0	6	6	4
-Lack of capital financing	Delayed	38	16	50	13	33
	Cancelled	8	13	18	15	22
-Lack of unskilled labor in area	Delayed	0	0	0	0	0
	Cancelled	15	0	6	2	0
-Lack of skilled labor in area	Delayed	0	11	0	3	11
	Cancelled	0	0	12	2	0
-Lack of marketing opportunity for product or service	Delayed	8	16	0	5	0
	Cancelled	8	7	6	8	13
-Inadequate private facilities and services	Delayed	8	5	0	13	11
	Cancelled	0	7	6	17	17
-Inadequate public facilities and services	Delayed	23	21	33	24	28
	Cancelled	23	26	18	17	26
-Other	Delayed	15	0	17	13	6
	Cancelled	8	9	6	8	4

*All response rates for types of delay within a given region should add to 100%. Same is true for types of cancellations. In some cases rounding errors may exist.

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Tables 10 and 11 cite specific types of inadequate private and public facilities and services. Sewer and water systems were mentioned the most frequently as inadequate public services, and the lack of shopping centers and recreational facilities were mentioned the most frequently as inadequate private facilities.

Survey respondents were asked to indicate whether they supported the three basic objectives of the Rural Virginia Development Foundation. There were some regional variations in response rates. However, when statistical tests were made, the differences were found to be insignificant. It may be concluded that overall, survey respondents favored the Foundation's three basic objectives. Table 12 illustrates the extent of respondents' support for the Foundation's objectives.

The cooperation and support of local governments will be important to the success of the Rural Virginia Development Foundation. Local government's willingness to provide technical and financial support to the Foundation is critical. Table 13 contains information regarding the relative preference of respondents for alternative types of financial involvement on the part of local governments.

In summary, the respondents to the survey expressed a fairly united view of the proposed Foundation. Respondents overwhelmingly acknowledged the need for the Foundation, and also agreed on the types of businesses they would prefer. Also, the survey results show that: (1) the two most important ingredients for future economic growth and development in Virginia are unique types of financing and more effective state leadership; and (2) local governments have a strong desire to participate in the efforts of the Rural Virginia Development Foundation.

III. OBJECTIVES AND PROPOSED STRUCTURE OF THE RURAL VIRGINIA DEVELOPMENT FOUNDATION

Based on the research discussed above and the input of a number of individuals and groups who appeared before the Cross Subcommittee in public hearings, legislation which would allow for the establishment of a Rural Virginia Development Foundation was drafted and revised. The Cross Subcommittee recommended the adoption of the legislation in its final report. (Joint Subcommittee).

A Bill (Senate Bill 279) to establish the Foundation was passed by both Houses of the Legislature in 1984 and was signed by the Governor on April 10, 1984. One of the key philosophies of the Foundation is to assist in the development of businesses that are compatible with a given area's resources, and with the needs and desires of local people and local officials. Some of the benefits to a given community will be increased employment, reduction in underemployment, increased farm family incomes, and expanded tax base for rural counties. It is assumed that more people will stay on the farm if total farm family incomes can be increased.

This non-profit Foundation will be administered by a 17-member board of trustees appointed by the Governor. Appendix B provides a list of the charter members of the Board. Board membership represents business, finance, education, and government (both local and state).

The Cross Subcommittee recommended that the board of trustees arrange themselves into three major standing committees which will constitute the basic structure and provide leadership for the RVDF's three principal objectives (See Figure 4).

Table 10: Types of Inadequate Private Facilities and Services

	North	Central	East	Southwest	Southside
			-Percent-		
Shopping Centers	0	25	50	56	40
Financial Institutions	0	25	0	11	0
Recreational Facilities	100	50	50	22	60
Transportation (freight) Services	0	0	0	11	0
Other	0	0	0	0	0

Table 11: Types of Inadequate Public Facilities and Services

	North	Central	East	Southwest	Southside
			-Percent-		
Schools	0	5	11	4	10
Hospitals	0	0	0	8	5
Sewage Systems	20	24	33	29	24
Water Systems	20	26	22	29	24
Police Protection	0	0	11	0	0
Fire Protection	0	3	11	0	0
Roads	10	8	0	4	0
Industrial Parks	30	16	11	13	14
Shell Buildings	20	13	0	4	14
Air Service	0	3	0	8	5
Other	0	3	0	0	5

Table 12: Percentage of Respondents Favoring the Objectives of the Rural Virginia Foundation

Objectives	North	Central	East	Southwest	Southside
			-Percent-		
1. Create access to sufficient operating and debt capital for small businesses in rural Virginia and target investments toward agricultural and natural resource related businesses	87	89	95	74	72
2. Pursue programs that ensure the delivery of coordinated leadership and man-power training activities and efforts	94	95	85	86	81
3. Identify emerging needs and techno-logical changes that generate products and services which can be produced by rural enterprises	100	89	90	77	81

Table 13: Conditions for Local Government Support of the Financial Corporation Known as VEDCORP*

		North	Central	East	Southwest	Southside
a.	No financial support from local government;	4	5	1	5	6
b.	Financial contributions are treated like purchases of common stock. Local governments could sell their shares when they wish to do so and would earn returns on the success of investments made by the Foundation;	1	1	3	1	1
c.	As in b. above, except that the state government guarantees investors a moderate rate of return on their investment in the event that the Foundation does not generate such returns;	5	3	5	4	2
d.	Financial contributions by local governments are considered a grant to the corporation, to be used to generate economic development and are not repayable by the Foundation;	6	6	6	3	4
e.	As in d. above, except that the state government guarantees the repayment of the contributions if the corporation does not create employment in the county within a reasonable period of time; or	3	2	2	2	3
f.	As in e. above, except that the guarantee includes a moderate rate of return during the	2	4	4	6	5

*Weighted average of all responses with 1 = the top choice and 6 = the least favored choice.

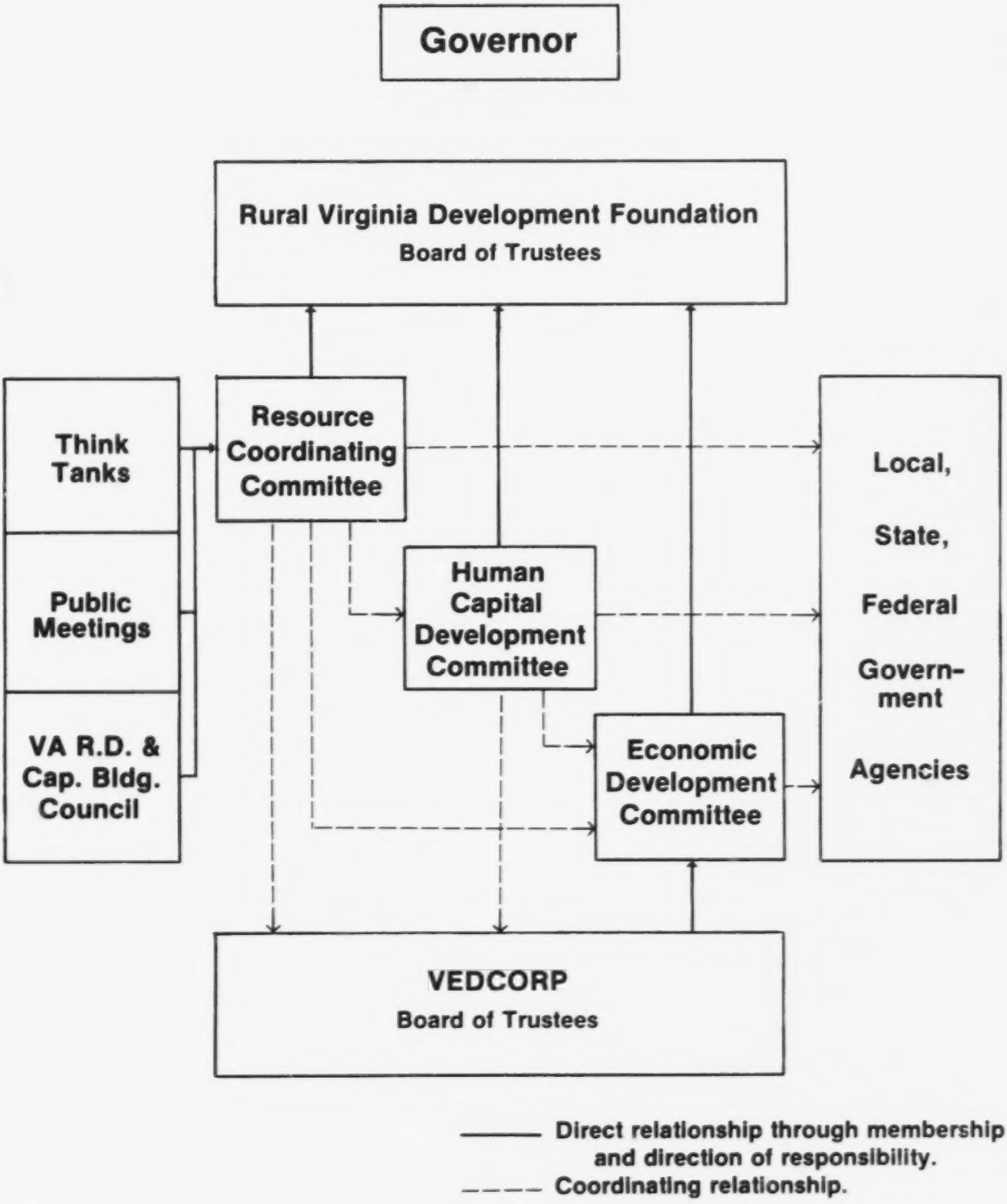

Figure 4: Rural Virginia Development Foundation

These objectives are:

1. To provide access to sufficient operating and debt capital for new and expanding small business in rural Virginia, and to target investments towards agricultural and natural resource related businesses.

2. To encourage the development of a human capital program that insures the delivery of targeted and coordinated leadership and manpower training activities. These programs should be designed to meet the emerging needs of the rural businesses, especially those enterprises developed by programs initiated under the first objective.

3. To identify emerging needs and technological changes that generate products and services which can be produced by rural enterprises in Virginia.

1. Role of the Economic Development Committee

Objective one will be the responsibility of the Economic Development Committee (EDC) of the Foundation. The EDC is charged with the task of creating access to sufficient operating and debt capital for small businesses in rural Virginia and targeting investments toward agricultural and natural resource related businesses. The overall role of the EDC will be to identify and encourage the expansion of profitable enterprises in rural Virginia, primarily through the provision of venture capital and other types of financial and technical support for small businesses. This role will involve the development of business enterprises based on new products, new markets, and new uses for existing products. Determination will also be made of the feasibility of replacing outside sources of inputs and consumer goods with local sources.

The emphasis of the EDC will be on expanding "value added" activities based on the agricultural and natural resource base of local economies. Additional processing and direct marketing are key examples. The approach will be to build on local potential capabilities of entrepreneurship, management, and resources. Using the resources of a new venture capital corporation, the risk of these new ventures can be pooled. By complementing the capital with technical and management assistance, overall risk will be reduced.

This Economic Development Committee (EDC) will coordinate its efforts with the State's Department of Economic Development, particularly to identify new product requirements of recently located or expanding firms in Virginia. The potential development of needed inputs or the use of manufactured products as inputs into new product lines envisioned by the EDC could be an attractive aspect of locating in Virginia. In this coordinating role, the EDC may serve to stimulate industrial and business development in the state through strengthening backward and forward linkages with other businesses and industries. Duplication of efforts with other state agencies would be avoided by effective coordination.

The EDC will further help identify emerging technological trends that can enhance the income position of rural Virginians by coordinating its activities with the private sector, with planning district commissions, with the colleges and universities of the state, and with the Virginia Cooperative Extension Service. Efforts will be directed specifically to those businesses that appear likely to promote balanced economic growth and a healthy interaction between farm and non-farm business sectors. Food processing businesses, wood products industries, computer-assisted marketing arrangements, and other businesses that modify existing products to make them more accessible to domestic and foreign markets are examples of ventures which the EDC will consider.

A major function of the EDC will be to establish one or more for-profit venture capital corporations (VEDCORPs). The primary responsibility of these corporations will be to carry out the first objective of the Foundation. They will provide loans, engage in equity financing, and guarantee loans to firms in rural areas of the state. Special emphasis will be placed on providing support to new entrepreneurs and small business ventures, although the needs of established firms desiring to expand will not be ignored. In addition to providing financial assistance, these VEDCORPs, with assistance from the Foundation, will assist businesses by providing financial planning, general planning, and various types of management expertise.

Like most private venture capital companies, a working philosophy of these VEDCORPs will be to remove themselves from part ownership of a given business as soon as the business becomes fully operational from a profit point of view. Thus, the VEDCORPs would sell their common stock in established businesses in order that the businesses would subsequently be privately owned and operated without VEDCORP involvement.

A major leadership role by the Foundation will be required for a VEDCORP to attract a sufficient capital base. The major support will come from local private investors, private industries, and local governments and development authorities. We anticipate that VEDCORPs will offer counties an alternative means of supporting and encouraging local development by allowing them to either invest in, or "purchase" development assistance from a VEDCORP. These funds obtained from localities will be used as equity capital by VEDCORP to invest in businesses in the localities. In addition, federal agencies will be encouraged to provide funds through grants or loans to the RVDF. The Foundation will, in turn, provide funds to the VEDCORP in exchange for equity stock. Principal sources of such funds may include the Farmers Home Administration, the Department of Housing and Urban Development, and the Small Business Administration. Figure 5 provides an illustration of how this financial system may operate.

A Case Example:

As an example of how the RVDF could support a project in Southwest Virginia, consider the following case of establishing a new wood-products manufacturing plant, Woodwise, in Wise County, Virginia. Assume that the RVDF has received a substantial foundation grant of $2 million. Also, its staff has worked with insurance companies, coal companies, and a consortium of banks to create a VEDCORP in Southwest Virginia (SWVEDCORP) with $1.5 million in private capital, including an equity investment of $.5 million by the RVDF. Also, one-third of this money or $.5 million was raised by selling small shares of common stock to the general public

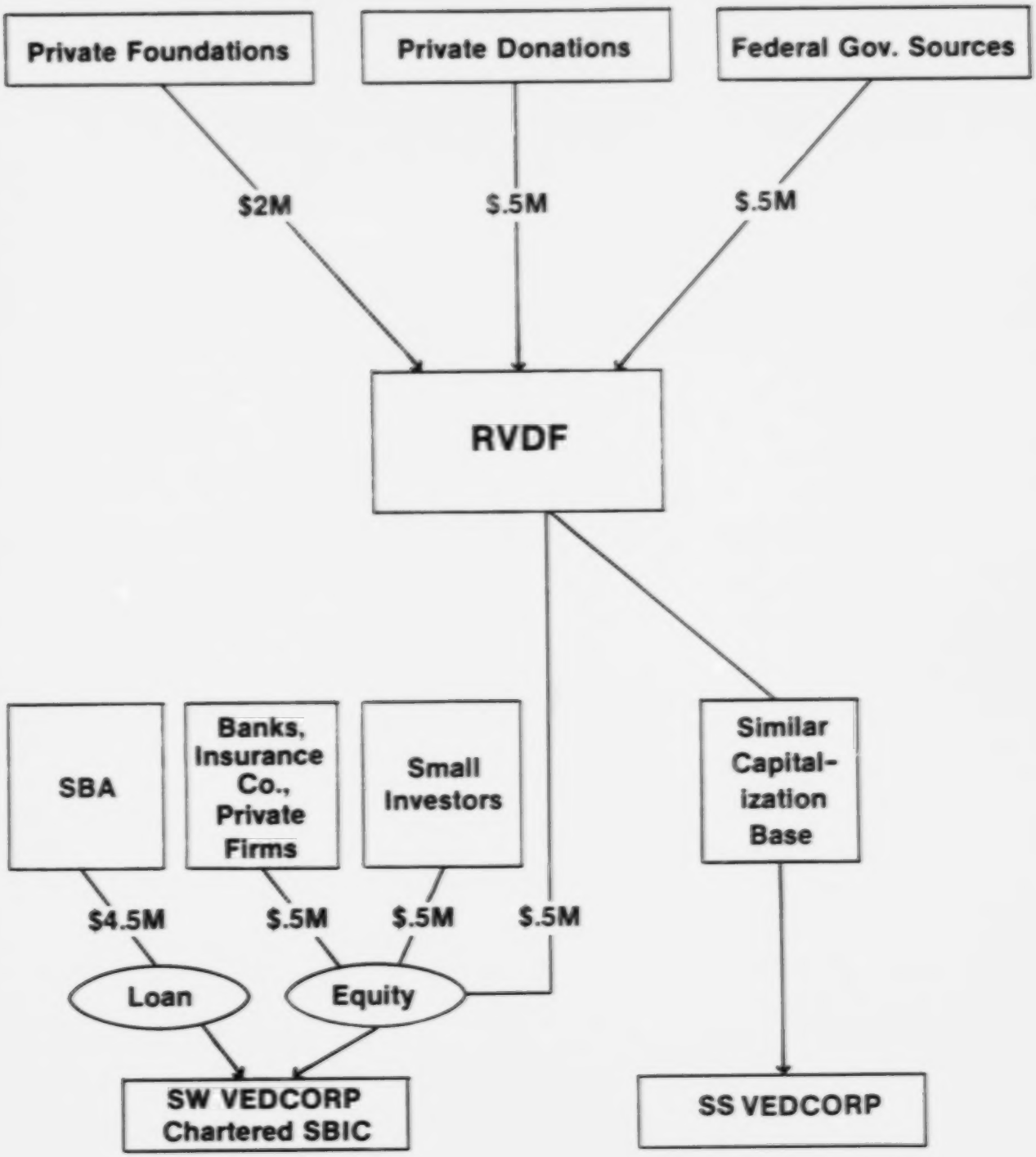

Figure 5: Relationship between RVDF and VEDCORP (Hypothetical) Illustrating Their Potential Capitalization Structure.

at $20 per share. The SWVEDCORP used its $1.5 million to obtain an additional $4.5 million from the Small Business Administration. Hence, the SWVEDCORP is capitalized at $6.0 million. Figure 5 illustrates the relationship between RVDF and VEDCORP in Southwest Virginia, and shows the capitalization structure of the Southwest VEDCORP (SWVEDCORP).

Assume that local entrepreneurs in Wise County decide to create an integrated wood products manufacturing plant that will produce wood pallets, wood toys, and use its by-products as soil building material for increasing the productivity of strip-mined land. The use of the wood by-products for increasing strip-mined land productivity is based on recent research findings. This new research reveals that a profitable use can now be made of a product that was heretofore strictly a cost item for a wood products manufacturing process.

The entrepreneurs work with the RVDF staff, the SWVEDCORP, and the local government to develop a plan for their firm. A feasibility plan emerges that calls for an investment of $400,000 in fixed assets and requires operating capital of $200,000. The entrepreneurs themselves can raise only $100,000 from their personal financial resources, but have available land for their firm's use, valued at $40,000.

Since operating capital of $200,000 is needed, a private corporation, Woodwise, is formed and common stock is sold at $20 per share. The entrepreneurs purchase half of the stock issued in order to retain controlling interest in the corporation. Friends and relatives purchase $25,000 of stock and SWVEDCORP purchases $75,000 in common stock. Next, assume that Wise County has organized a Certified Development Corporation (CDC) under the SBA 503 Program that builds on local bank support. Local banks provide $200,000 and an additional $160,000 in debentures are sold on behalf of the Small Business Administration. Hence, the CDC and banks have a lending capacity of up to $360,000 to the firm. This $360,000 combined with the $40,000 worth of land owned by the entrepreneurs, provides Woodwise with its fixed assets. Figure 6 illustrates the relationship between SWVEDCORP and the manufacturing firm, Woodwise, and the capitalization structure of Woodwise.

Marketing assistance and technical support is marshalled by SWVEDCORP to support Woodwise so that the firm becomes quite successful. Within seven years it has quadrupled in size and its assets are now valued at $2.5 million. Its common stock is now valued at $80 per share. Family members of the original entrepreneurs are now in a position to buy out the common stock of SWVEDCORP for $300,000 (four times the original value).

SWVEDCORP can use these funds ($300,000) obtained from its sale of Woodwise stock for other investments in the region and can provide dividends to its own stockholders, among which is the RVDF. As successful firms are established, RVDF will be able to support its staff and make equity investments in other regionally-specific VEDCORP across Virginia.

In summary, the VEDCORPs will fill the following specific needs which generally are not adequately met by existing public and private agencies:

- The risk associated with each new venture will be pooled over all investments and a portion of the risk will be spread over public and private sectors.

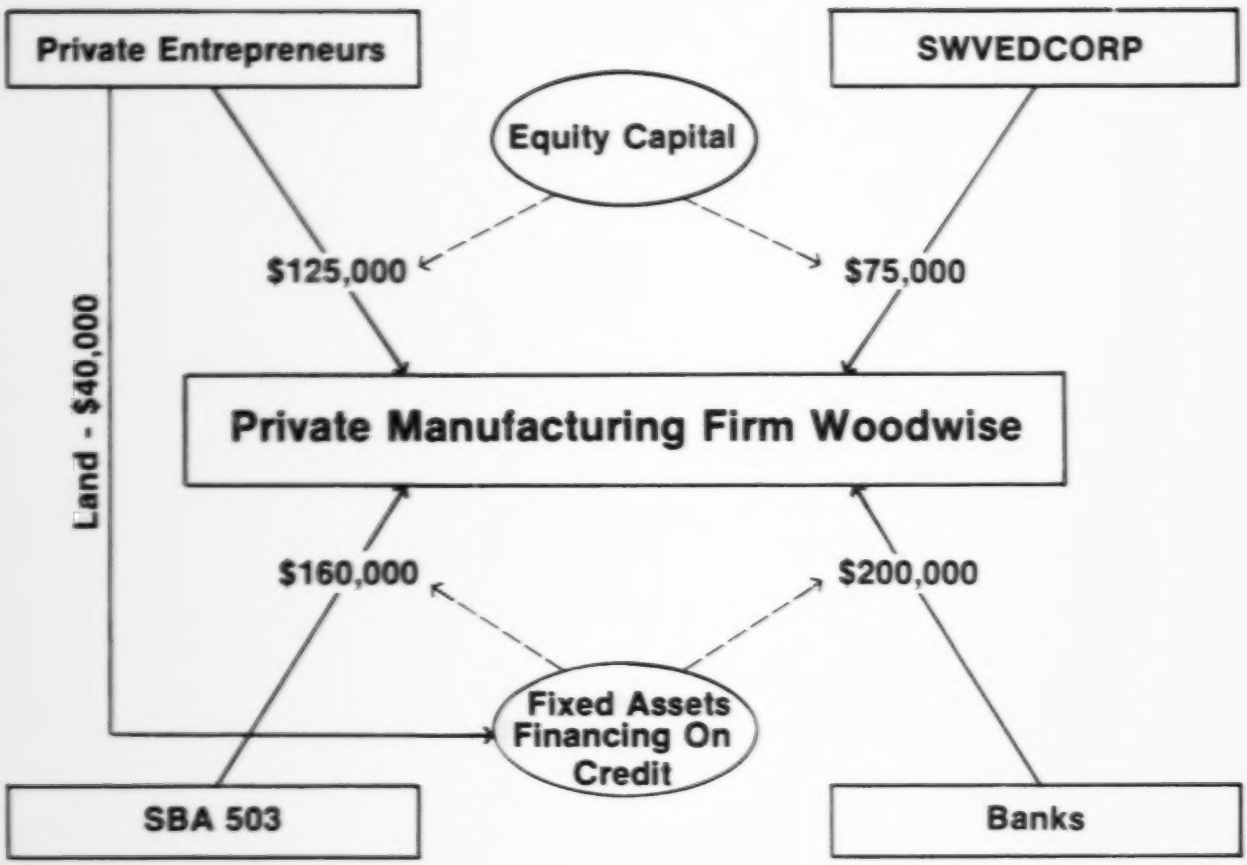

Figure 6: Relationships Between SWVEDCORP and Private Manufacturing Firm. Illustrating the Capitalization Structure of the Private Firm.

- The cost of financial information and transactions will be minimized.

- Small, higher risk enterprises which are frequently excluded from traditional credit sources will be favored.

- Additional sources of capital will be provided in communities with limited financial alternatives. Existing financial institutions will be encouraged to participate more fully in local projects.

- Assistance will not be restricted to any particular corporate form of organization; e.g., cooperatives, limited partnerships, community development corporations.

- Entrepreneurs in low income areas and in minority communities which have traditionally not received equal consideration will be given special attention.

2. Role of the Human Capital Development Committee

The second objective of the Foundation will be the responsibility of the Human Capital Development Committee (HCDC). The HCDC will pursue programs that ensure the delivery of coordinated leadership and manpower training activities and efforts. This committee will encourage the development of programs designed to identify and train entrepreneurs, and to upgrade the labor and management skills needed to serve the future economic needs of the public and private sectors of the Commonwealth. Coordination with existing state and federal agencies will be emphasized, and the resources of Virginia's four year colleges and universities and community colleges will be utilized.

The HCDC will improve quality of life directly by increasing investment in human capital and indirectly by increasing the productivity of the labor and managerial forces thereby increasing the value of labor and wages. The committee will identify and coordinate relevant aspects of existing human capital programs as well as initiate new programs designed to promote the objectives of the RVDF, particularly efforts to promote entrepreneural identification and training.

This committee will coordinate managerial and manpower training programs that improve efficiency and productivity in the private sector and promote capacity building development of local governments. Systematic efforts will be undertaken to upgrade the quality of human capital by targeting training programs toward the emerging needs of local governments, business, and industry. A program of entrepreneural identification will be undertaken in conjunction with colleges of agriculture and programs of human resource development, business administration, engineering, public administration, and planning.

3. Role of the Resources Coordinating Committee

The Resources Coordinating Committee (RCC) will be responsible for the third objective. The Committee will identify emerging needs and technological changes that generate products and services which can be produced by rural enterprises. The RCC will maintain close coordination with the Virginia Rural Development and Capacity Building Council, state agencies, local governments, planning district com-

missions, the Agribusiness Council, state and local chambers of commerce, and other private organizations and groups.

The RCC will be aided by ad hoc task forces designed to identify problems, develop alternative approaches to their solution, and generally serve in a "think-tank" capacity to deal with the emerging needs of rural communities. Members of the "think-tanks" will be individuals who are, through experience, academic training, or self-study, committed to examining creative, new approaches to economic change, community development and improved quality of life. The RCC will direct the "think-tanks" in such a manner that they support related efforts of the RVDF. The committee will also hold meetings at various locations across the state to encourage broad participation and to elicit ideas.

The RCC will draw on volunteer groups and private agencies to gain insight into new approaches to problem-solving that are based on grass-roots involvement. Extension programs, community colleges and other educational institutions may provide useful and practical applications of knowledge. Emerging technology for new rural business and industry can be identified and production schemes established. This economic-educational linkage will serve to enhance the economic and social interests of rural areas.

The RCC will function as a collector, disseminater, and medium for information and ideas. The committee will collect, evaluate, project and disseminate information through its task forces. These task forces, in turn, will attempt to systematically obtain information on pilot projects and experimental efforts that may prove successful in rural Virginia. As the RVDF's extension arm, the RCC will disseminate information relating to enterprise and human development. And finally, it will serve as a medium for transmitting ideas and information which should be shared with various agencies of federal, state, and local governments. The intent is to give life and energy to innovative ideas and apply knowledge gained from experimental efforts. The work of various planning district staffs should be drawn on in this regard.

IV. PUBLIC-PRIVATE SECTOR COOPERATION -- THE CHALLENGE OF EFFECTIVE STATECRAFT

The development of the Rural Virginia Development Foundation by the state legislature drew on the expertise of faculty at Virginia Tech and their colleagues in the Virginia Department of Agriculture and Consumer Services. The final bill signed by Governor Charles Robb on April 10, 1984, reflects the culmination of careful problem identification, an assessment of both theoretical and applied research on rural enterprise development, and the political process. In this sense, the development of the RVDF represents a case study of the research-extension integration advocated by proponents of Title V of the Rural Development Act of 1972.

The Rural Virginia Development Foundation is one product among a wide range of state economic development programs that are currently emerging across the nation. The principal elements of the Foundation represent a cohesive program to address the priority needs of rural areas of Virginia. The remaining challenge is to successfully maintain the intellectual framework of the RVDF concept while effectively implementing the program.

The decentralization of federal government authority and finance has created the need for a careful exploration of concepts and approaches. Out of this will hopefully come the ability to creatively fashion new mechanisms for state policy implementation. These new institutions, by necessity, will be the joint products of intellectual input and the political process. Only in this atmosphere will the public be served with full benefit of received knowledge.

FOOTNOTES

1. In this context, New Federalism refers to the altered relationships between federal and state fiscal relations which result in a shift in administrative and/or financial responsibility from federal to state governments. This shift began in 1982 with President Reagan's set of proposals for "fundamentally altering U.S. federal-state fiscal relations" (Gramlich, p.327).

2. Symposium on Local Leadership and Rural Development, sponsored by the Organization for Economic Cooperation and Development (OECD), Washington, D.C. and Williamsburg, VA, April 16-20, 1984.

3. Dr. O.W. Cundiff (now deceased), former Director of the CRD Extension Program at VPI & SU, was an active participant in the early stages of this work. Recognition is hereby expressed for the contribution and support he gave to this project.

4. In 1983, 64 percent of total farm household income in the U.S. was received from off-farm sources. For details on these figures see USDA.

5. Venture capital is defined as equity investments designed for rapid growth firms. The venture capitalist nurtures otherwise under capitalized firms through their high risk, rapid appreciation stages and then sells its interest when the firm becomes financially stable. The venture capitalist combines equity financing with management and marketing expertise in order to reduce the level of risk involved.

6. Staff support for the work of the Subcommittee was provided by Virginia Tech research and extension faculty in the Department of Agricultural Economics and staff members of the Planning and Development Unit of the Virginia Department of Agriculture and Consumer Services.

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APPENDIX A

LEGISLATION

Creating the Rural Virginia Development Foundation

Signed by Governor Charles Robb on April 10, 1984

1984 SESSION

CHAPTER 731

An Act to amend the Code of Virginia by adding in Title 3.1 a chapter numbered 5.2, consisting of sections numbered 3.1-27.37 through 3.1-27.50, to establish the Rural Virginia Development Foundation.

[S 279]

Approved April 10, 1984

Be it enacted by the General Assembly of Virginia:
1. That the Code of Virginia is amended by adding in Title 3.1 a chapter numbered 5.2, consisting of sections number 3.1-27.37 through 3.1-27.50, as follows:

CHAPTER 5.2.
Rural Virginia Development Foundation.

Sec. 3.1-27.37. Short Title.-This chapter shall be known and may be cited as the "Rural Virginia Development Foundation Act."

Sec. 3.1-27.38. Legislative findings, purpose of chapter.-The General Assembly finds that there exists a need for diversified economic opportunity in many rural areas of the Commonwealth. Many rural communities face poor economic conditions manifested by high unemployment, underemployment and low farm income. Such problems can be alleviated by economic growth and employment opportunities provided by small businesses. Creation of a Rural Virginia Development Foundation is within the public interest to promote small industry, improve management development and labor productivity, and to identify, encourage, and coordinate new approaches to economic development in rural communities of the Commonwealth.

Sec. 3.1-27.39. Definitions.-As used in this chapter:

"Board of trustees" means the board of trustees of the Rural Virginia Development Foundation.

"Economic development corporation" means an enterprise incorporated pursuant to the provisions of this chapter with the authority to promote and assist the growth and development of small business concerns.

"Foundation" means the Rural Virginia Development Foundation.

"Local government" means the governing body of any county, city or town in the Commonwealth.

Sec. 3.1-27.40. Foundation created.-The Rural Virginia Development Foundation is created to be organized and to have the powers set forth in this chapter.

Sec. 3.1-27.41. Creation of the board of trustees, membership.-A. The Rural Virginia Development Foundation shall be governed and administered by a board of trustees consisting of seventeen members. Members of the board shall be appointed

by the Governor, subject to confirmation by the General Assembly. The board of trustees shall consist of the Secretary of Commerce and Resources and the following individuals appointed by the Governor: two department heads of state government, two representatives of the financial community, four members of the business community, four members of the education community, and four members who are elected local officials. Initially the trustees shall be appointed for the following terms: six for a term of four years, six for a term of three years, and two for a term of two years. Thereafter, successors to trustees whose terms expire shall be appointed for terms of four years. The Secretary of Commerce and Resources and the two department heads of state government shall serve at the pleasure of the Governor. All trustees may be reappointed.

B. Trustees of the Foundation shall be reimbursed from Foundation funds for their actual traveling expenses incurred in the performance of their duties on behalf of the Foundation.

C. The board shall elect from its membership a chairman, vice-chairman, and other officers as it deems appropriate.

D. The chairman of the board, the treasurer, and any other person designated by the board to handle the funds of the Foundation shall give bond, with corporate surety, in such penalty as is fixed by the State Treasurer, conditioned upon the faithful discharge of their duties. The premium on the bonds shall be paid from funds available to the Foundation.

E. A majority of the members of the board serving at any one time shall constitute a quorum for the transaction of business.

Sec. 3.1-27.42. Purpose of Foundation; objectives.-The Foundation will have the following objectives:

1. To develop and promote programs of economic growth in rural Virginia that are compatible with its cultural, resource and economic environment. The Foundation will encourage entrepreneural efforts to increase value-added production, processing and marketing activities in rural Virginia.

2. To pursue programs that ensure the delivery of coordinated leadership and manpower training activities and efforts.

3. To identify emerging needs and technological changes that generate products which can be produced by rural enterprises.

Sec. 3.1-27.43. Committees.-The board shall appoint standing committees which will constitute the basic structure and provide leadership for the Foundation's principal objectives.

Sec. 3.1-27.44. Meetings, staff, etc.-The Foundation's board shall meet at least twice annually to conduct the duties assigned to it under this chapter. The board shall appoint an Executive Director who shall supervise assistance from state agencies and institutions, and the board may hire additional staff as needed.

Sec. 3.1-27.45. Annual reports.-The Executive Director shall provide annual reports to the Governor summarizing the activities of the Foundation.

Sec. 3.1-27.46. Powers of the Foundation.-To enable it to carry out its functions, the Foundation shall have the following general powers:

1. To sue and be sued in contractual matters in its own name;

2. To adopt all procedural and substantive rules necessary for the administration of this chapter;

3. To make contracts and agreements, and execute other instruments necessary or appropriate to carry out its purposes;

4. To enter into agreement with, and accept grants from, any governmental agency in furtherance of this chapter;

5. To accept services, gifts, grants, and any property of any character, and to utilize or dispose of them for the purposes for which the Foundation is created;

6. To acquire by gift, devise, purchase, or otherwise, absolutely or in trust, and to hold and, unless otherwise restricted by the terms of the gift or devise, to encumber, convey, or otherwise dispose of, any real property, or any estate or interest therein, as may be necessary and proper in carrying into effect the purposes of the Foundation;

7. To appoint and prescribe the duties of officers, agents, and employees as necessary to carry out its functions, and to fix and pay compensation to them as determined by the board;

8. To coordinate the formation of any economic development corporation as defined in this chapter and to own stock in such a corporation; and

9. Generally to do all lawful acts necessary or appropriate to carry out the purposes for which the Foundation is created.

Sec. 3.1-27.47. Subsidiary corporations.-Economic development corporations may be incorporated in this Commonwealth pursuant to the provisions of Chapter 1, Article 3, (Sec. 13.1-48 et seq.) of Title 13.1 of the Code of Virginia, and all the provisions of Chapter 1 of Title 13.1 of the Code not in conflict with or inconsistent with the provisions of this chapter shall apply to such corporations. The purpose clause of the articles of incorporation shall recite that the purpose for which the corporation is formed is to stimulate and promote the economic prosperity of the Commonwealth and its citizens and to encourage and assist through equity investments, loans, loan guarantees, advice, technical assistance and other appropriate means, the creation and location of new businesses and industries and the expansion of existing businesses and industry, in the rural areas of the Commonwealth. In furtherance of these purposes, economic development corporations shall coordinate their activities with the Virginia Division of Industrial Development, the Virginia Department of Agriculture and Consumer Services and other organizations, public and private.

Sec. 3.1-27.48. Limitations, subsidiary corporations.-A. Any economic development corporation formed pursuant to this chapter shall restrict its equity investments and related business dealings to business firms which will use such investments for the creation and location of new businesses and industries in rural

Virginia or for the expansion of existing businesses and industries in the rural areas of the Commonwealth. Consistent with the purpose for which an economic development corporation may be formed, funds invested in Virginia business firms by purchase of stock or otherwise shall be used by the firms solely for the purpose of enhancing their productive capacities or ability to do business within the Commonwealth, or to facilitate their ability to add value within the Commonwealth to goods or services for export to out-of-state markets.

B. No person, firm or corporation other than the Foundation shall subscribe for, own or hold directly or indirectly more than twenty-five percent of the issued shares of the common stock of any economic development corporation at any time.

C. Any local government may in accordance with present law, participate or invest in the funding or operation of any economic development corporation formed pursuant to this chapter.

Sec. 3.1-27.49. Federal Small Business Investment Act; applicability.-Any corporation organized under the provisions of this chapter shall be a state development company, as defined in the Small Business Investment Act of 1958, Public Law 85-699, or any other federal legislation, and shall be authorized to operate on a statewide basis.

Sec. 3.1-27.50. Credit of the Commonwealth not pledged.-Under no circumstances is the credit of the Commonwealth pledged herein.

APPENDIX B

RURAL VIRGINIA DEVELOPMENT FOUNDATION,

BOARD OF TRUSTEES

RURAL VIRGINIA DEVELOPMENT FOUNDATION, BOARD OF TRUSTEES

The board, created by Senate Bill 279, is responsible for developing and promoting programs of economic growth in rural Virginia that are compatible with the area's cultural, resource, and economic environment. It will also identify emerging needs and technological changes that generate products which can be produced by rural enterprises.

Jerome J. Booker, 47, of Fork Union, effective July 1, 1984, to serve for a term of three years, ending June 30, 1987.

Claude J. Bradshaw, 49, of Catharpin, effective July 1, 1984, to serve for a term of three years, ending June 30, 1987.

S. Mason Carbaugh, 57, of Richmond, effective July 1, 1984, to serve at the pleasure of the Governor.

Dr. Brady J. Deaton, 41, of Blacksburg, effective July 1, 1984, to serve for a term of six years, ending June 30, 1990.

Dr. Betty J. Diener, 43, of Richmond, effective July 1, 1984, to serve at the pleasure of the Governor.

P. Scott Eubanks, 38, of Richmond, effective July 1, 1984, to serve at the pleasure of the Governor.

Sue Gift, 46, of Richmond, effective July 1, 1984, to serve for a term of six years, ending June 30, 1990.

Michael M. Hawes, 34, of Blacksburg, effective July 1, 1984, to serve for a term of three years, ending June 30, 1987.

Charles S. Hooper, Jr., 76, of Crewe, effective July 1, 1984, to serve for a term of three years, ending June 30, 1987.

Mike Milanovich, 63, of Virginia Beach, effective July 1, 1984, to serve for a term of two years, ending June 30, 1986.

Barbara G. Nanney, 44, of South Hill, effective July 1, 1984, to serve for a term of three years, ending June 30, 1987.

R. Neely Owen, 32, of Emporia, effective July 1, 1984, to serve for a term of six years, ending June 30, 1990.

Willie H. Powell, 68, of Petersburg, effective July 1, 1984, to serve for a term of two years, ending June 30, 1986.

Anna L. Pullin, 55, of Staunton, effective July 1, 1984, to serve for a term of six years, ending June 30, 1990.

Edward A. Ragland, Sr., 66, of Milford, effective July 1, 1984, to serve for a term of three years, ending June 30, 1987.

Samuel Redd, 38, of Martinsville, effective July 1, 1984, to serve for a term of six years, ending June 30, 1990.

Allen Roots, Jr., 53, of Richmond, effective July 1, 1984, to serve for a term of six years, ending June 30, 1990.

APPENDIX C

SENATE JOINT RESOLUTION NO. 10
AND
THE JOINT SUBCOMMITTEE

SENATE JOINT RESOLUTION NO. 10

Requesting a joint subcommittee of the House Agriculture and the Senate Agriculture, Conservation and Natural Resources Committees to study the feasibility of establishing the Rural Virginia Development Foundation.

Agreed to by the Senate, February 25, 1983
Agreed to by the House of Delegates, February 24, 1983

WHEREAS, the Rural Development Authority Task Force has considered a need to establish a Rural Virginia Development Foundation; and

WHEREAS, the purpose of the Foundation would be to improve the general welfare of the Commonwealth through balanced economic development of rural communities and small towns; and

WHEREAS, the Foundation would provide a means to develop and promote programs of balanced economic growth in rural Virginia compatible with its cultural and economic environment; and

WHEREAS, the Foundation could also provide a means for developing human capital programs that would ensure the delivery of targeted and coordinated leadership and manpower training programs; and

WHEREAS, the comprehensive nature of the proposed Foundation merits further consideration by a broad cross-section of the public and evaluation by the private and public agencies across the Commonwealth; now, therefore, be it

RESOLVED by the Senate of Virginia, the House of Delegates concurring, That there is hereby created a joint subcommittee to further evaluate the feasibility of establishing the Rural Virginia Development Foundation. The joint subcommittee shall consist of four members of the House Agriculture Committee to be appointed by the Chairman thereof and three members of the Senate Agriculture, Conservation and Natural Resources Committee to be appointed by the Senate Committee on Privileges and Elections. The join subcommittee shall complete its work by and make any recommendations it deems appropriate to the the 1984 Session of the General Assembly.

The cost of conducting this study shall not exceed $5,600.

RURAL VIRGINIA DEVELOPMENT FOUNDATION JOINT SUBCOMMITTEE

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